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SUBJECT: EXPANDED KENYAN CABINET MIGHT COST EXTRA \$600 MILLION A YEAR

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REFS: A) NAIROBI 1126, B), NAIROBI 1041, C) NAIROBI 355

#### Summary

**11.** (SBU) The new 92-person Kenyan Cabinet represents 42% of Parliament and is the largest, most expensive in Kenya's history. The Grand Coalition Cabinet and government could cost Kenyan taxpayers up to \$5.82 billion/year, about \$594 million more than the previous one. This extra cost is probably manageable, but it adds fiscal strain at a time when the Government also needs resources for post-crisis reconstruction. Ordinary Kenyans, while glad to have peace, are angered at the high price paid in the form of a bloated cabinet. End summary.

Grand Coalition Government Biggest Ever...

**12.** (U) On April 13, Kenyan President Mwai Kibaki named the Grand Coalition Cabinet worked out with opposition leader Raila Odinga under the agreement brokered by Kofi Annan and enacted under the National Reconciliation Accord Act. Kibaki named one Prime Minister (PM), two Deputy PMs, 39 Cabinet Ministers, an Attorney General and 52 Assistant Ministers. The government was expanded by splitting up five ministries, creating four new ministries, and by redistributing the functions formerly carried out by 35 agencies (refs A and B). Of the 222 Members of Parliament, 92 (about 42%) are Cabinet members, making this the largest, and almost certainly the most expensive government in Kenya's history. The new Coalition Cabinet is evenly divided between the Party of the National Unity (PNU - an umbrella of several parties that support Kibaki) and the Orange Democratic Movement (ODM) coalition that supports PM Raila Odinga. The Coalition Cabinet was sworn into office on April 17. On April 21, President Kibaki appointed a head of civil service, 43 Permanent Secretaries (PS), and 21 Secretaries, 11 of whose positions were newly created.

Cabinet Costs Up 19%

**13.** (U) In 2007, the Cabinet was comprised of a Vice President, 33 Cabinet Ministers, 50 Assistant Ministers, 34 Permanent Secretaries and 10 Secretaries, and was considered large. Using existing data on government salaries and benefits, we believe that if one includes the Cabinet members' pre-existing base salaries as Members of Parliament, the Cabinet itself cost Sh1.53 billion/year, or \$24.2 million. Using the standard set of allowances and perks for each level, we believe the new National Coalition Cabinet of a Vice President, one Prime Minister, two Deputy Prime Ministers, 39 Cabinet Ministers, 52 Assistant Ministers, 43 Permanent Secretaries

and 21 Secretaries will cost Sh1.8 billion/year (\$28.7 million), a \$4.5 million, or 18.6%, increase.

#### Guesstimated Cost of New Government Up 10.5%

**¶4.** (U) Calculating the greater total cost of government is far more problematic, because in several cases, "new" ministries are simply existing bureaucracies that will be hived off of other ministries. Underlying salary costs thus may not increase substantially. But it is likely administrative costs will increase as new ministries replicate administrative functions previously handled under single ministries, and buy new vehicles and furnish new offices for the new Ministers and their assistants. In the 2007-08 budget, the total operating cost of the previous government of 34 Ministries was Sh315.8 billion/year or \$5 billion, an average of Sh9.3 billion or \$147.4 million/Ministry (ref C). If one assumes (admittedly somewhat arbitrarily) that the eight new and/or divided ministries will cost only half of this average cost, then the total cost of the new government would be KSh353 billion (\$5.6 billion), which would be a 10.5% increase of \$589.8 million. Together with the additional Cabinet costs, the total Coalition government will cost an additional Sh37.5 billion (\$594 million) or so more than the previous government.

#### The Public Reacts

**¶5.** (U) Whether one considers this increase reasonable, obscene, or something in between, context and perceptions matter. Civil society groups have criticized the Coalition Cabinet as bloated, saying the number of ministers is unjustified in a country where 46% were living on less than \$1 a day even before the crisis tipped many more into poverty, and where about 350,000 internally displaced persons desperately need assistance in rebuilding their lives. Civil

society activists and the media had called on Kibaki and Odinga to name a 24-member cabinet comprised of a Prime Minister, two deputies, a Vice President, 20 Ministers and 24 Assistant Ministers.

We estimate such a lean cabinet would have cost Sh960 million/year or \$15.2 million -- 47% less than the estimated cost of the Coalition Cabinet.

#### Can the GOK Afford It?

**¶6.** (U) In addition to the added costs of the new, larger government, the GOK also estimates it needs \$479 million for reconstruction following the two months of violence that displaced about 350,000 people. This will add to a FY 2008-08 budget that was already forecasting a KSh 109 billion deficit. In response, Finance Minister Kimunya on April 29 asked Parliament to approve an additional Sh27 billion (\$429 million) supplemental for the FY2007-08 budget. A total of Sh19.6 billion (\$311 million), including Sh4 billion from other previously budgeted funds, will be for the expanded Government's operating costs. The revisions will raise the FY07-08 budget from Sh537.6 billion in planned spending to Sh559.2 billion.

**¶7.** (U) The Kenya Revenue Authority (KRA) reported collecting \$4.6 billion in the first three quarters of FY2007-08, 1.8% above the target of \$4.5 billion. KRA Commissioner-General Michael Waweru insisted that revenue collections were on target, despite the economic aftermath of the crisis. Anecdotal evidence suggests this might not be the case, but only time will tell whether KRA will continue to meet revenue targets to help defray the cost of a larger government and help the country rebuild. Meanwhile, the sale of Telkom Kenya to France Telecom in December brought in \$390 million (about Sh27 billion at the then-exchange rate of Sh70/\$), and the initial public offering of cell phone giant Safaricom, which is ongoing, is expected to net Sh50 billion, much higher than the budgeted Sh34 billion. Because money is fungible, the proceeds of these successful privatizations will help cover the higher cost of the new government, but they can only do so in the first year. After that, Kenyan taxpayers will have to bear the cost.

#### Comment

**¶8.** (SBU) Our guesstimate of the added costs of a larger cabinet and civil service is just that - an attempt to quantify something which only over time will become more precisely measurable. While Kenyan

civil society and media accepted the reconciliation deal, they have criticized the bloated cabinet as a high price to pay for peace. The appearance of 42% of already-well paid MPs receiving extra allowances and benefits while hundreds of thousands of displaced persons suffer and hundreds of thousands more lose jobs and slip into poverty rankles Kenyans deeply, and for good reason.

Ranneberger